



Southeast Timber Task Force Report

Prepared for Governor Tony Knowles



SOUTHEAST TIMBER TASK FORCE REPORT

Prepared for Governor Tony Knowles
Prepared by: The Southeast Regional Timber Industry Task Force

Members

Jack Booth, Mayor of Metlakatla
Errol Champion, Silver Bay Logging
Kirk Dahlstrom, Viking Lumber
Pete Hallgren, Mayor of Sitka
Ralph Lewis/ Dick Leary, KPC
Bob Loescher, Sealaska
Jim Mackovjak, Tongass Community Alliance
Jeff Meucci, Mayor of Petersburg
Doug Roberts, Mayor of Wrangell
Steve Seley, Seaborne Lumber
Jack Shay, Mayor of the Ketchikan Gateway Borough
John Sisk, Liaison to Environmental Groups
Alaire Stanton, Mayor, City of Ketchikan
John Sturgeon, Koncor Forest Products
Ginny Tierny, City Administrator, Thorne Bay

Phil Janik, USFS Regional Forester, **Advisor**
Kathleen Morse, Commerce and Economic Development, **Lead Staff and Author**
Diane Somers, Commerce and Economic Development, **Layout and Editing**
Karl Ohls, Commerce and Economic Development, **Editorial Assistance**

October 1997



TABLE OF CONTENTS

Preface	vii
Introduction	1
Recommendations	
Immediate Goals	7
On-Going Goals	19
The Timber Resource	27
Timber Supply Outlook.....	31
Tongass National Forest	32
State of Alaska.....	33
Mental Health Trust	34
University of Alaska	35
Native Corporations	37
The Wood Products Industry in Southeast Alaska	39
Historical Background	39
Existing Wood Processing Facilities and Products	42
Planning for the Future	45
Key questions	46
Alternative Visions	47
Programs to Encourage Value-Added Processing in Other Regions	48
Appendix A - Task Force Resolution on Tongass Land Management Plan minimum harvest level and draft minutes from the Dec. 20, 1996 meeting	
Appendix B - Task Force correspondence: Letters from Doug Roberts, Task Force Chairman, to Dan Glickman, Secretary of Agriculture, Phil Janik, Regional Forester, Norm Hinman, National Renewable Energy Laboratory, and Don Young, United States Representative.	
Appendix C - Task Force-related correspondence: Letters from Governor Tony Knowles to Dan Glickman, Secretary of Agriculture, and Bill Sheffield, Chairman, Alaska Railroad Corporation, and from Jim Ayers, Chief of Staff, Office of the Governor, to Greg Frazier, Chief of Staff, U.S. Department of Agriculture, and Michael Dombeck, Chief Forester, U.S. Department of Agriculture.	
Appendix D - U.S. Forest Service five year schedule of planned timber sales	
Appendix E - U.S. Forest Service Tongass Timber Sale Program for FY 1997	
Appendix F - State of Alaska Timber Sale Program for Southeast, FY 1997	
Appendix G - Four Visions of the Timber Industry (AFA)	
Appendix H - Modeling a Small-Scale Secondary Manufacturing Industry (D. Katz, SEACC)	
Appendix I - Characteristics of Local Species	
Appendix J - Options for the Use of Low-End Wood	
Appendix K - Charts showing global roundwood exports, roundwood importers, softwood supply, lumber consumption, and timber supply	
Appendix L - Questions and answers from the Task Force to the U.S. Forest Service	



LIST OF TABLES

Table 1. Unique Properties and Potential Products of Alaskan Species 28

Table 2. Relative Working Properties 29

Table 3. Southeast Regional Timber Supply 31

Table 4. Gulf Coast Regional Timber Supply 31

Table 5. Alaska Mental Health Trust Land Office
Southeast Commercial Forestland Estimates 35

Table 6. University of Alaska Timber Supply 36

Table 7. Native Corporation Timber Supply 37

Table 8. Southeast Alaska Sawmills 43

LIST OF FIGURES

Figure 1. Tongass Log Grade Composition 27

Figure 2. Annual Timber Harvest - Southeast Alaska 39

Figure 3. Key Factors in Development of the Timber Industry 45



PREFACE

On September 26, 1996, Governor Tony Knowles appointed a fifteen-member Task Force to develop a plan for a sustainable timber industry in Southeast Alaska. Doug Roberts, Mayor of Wrangell, and Jeff Meucci, Mayor of Petersburg were designated co-chairmen. The Task Force membership also included elected officials, industry representatives, and community leaders from Ketchikan, Sitka, Metlakatla, Thorne Bay, Klawock, Gustavus, and Juneau.

The Governor stressed the need for the Task Force members to work cooperatively in planning for a viable, sustainable timber industry that people in Southeast Alaska can live with and support. The following mission statement was adopted during the second meeting of the Task Force (October 3, 1996):

SOUTHEAST REGIONAL TIMBER TASK FORCE MISSION STATEMENT

A. Restructure the Industry for Competitiveness in the 21st Century

The Task Force will develop a vision and a plan to achieve a balanced industry structure in Southeast Alaska that is economically viable, environmentally sound, based on sustainable harvest volumes, sustainable harvest techniques and value-added processing, and supported through cooperation among timber ownerships. Timber should be processed with the goal of minimizing waste and maximizing product recovery and jobs for Alaskans.

B. Develop Solutions to the Timber Supply Problem

State, private, and federal ownerships in Southeast Alaska must work together to provide a sustainable, consistent, and reliable supply of timber for our wood products industry. Task force members will develop the blueprint for a cooperative approach to the management of the commercial timber resources in Southeast Alaska.

C. Stabilize Remaining Players in the Industry

It is imperative we retain our remaining timber processing entities with the sustainable timber supply. Members of the task force will identify immediate steps necessary to allow these businesses to be remain viable.

D. Provide assistance to individuals and businesses in Southeast Region

The task force will work with the state's "Southern Southeast Region Coordinated Response Partnership" and assist in identifying opportunities for displaced timber industry workers and small businesses.

E. Provide counsel to the Governor regarding wood products processing proposals

As proposals are announced, the task force will provide analysis to the Administration on the viability of those proposals and how they fit into the overall vision of a sustainable timber industry.

The Southeast Regional Timber Task Force held nine meetings; five in Juneau, one in Wrangell and Sitka, and two in Ketchikan. All meetings, notes and information generated by the Task Force were open and available to the public.



INTRODUCTION

The timber economy of Southeast Alaska is in the midst of a profound structural change. More than half the region's total employment in wood products manufacture has been lost in the last three years. Recent mill closures include Alaska Pulp Corporation's Sitka pulp mill (April 1994), the Wrangell sawmill (November 1994) and Louisiana Pacific's (LP's) Ketchikan pulp mill (March 1997). Direct employment from these mills alone accounted for a loss of 1,200 workers. Other job losses have occurred among subcontractors, allied businesses, and other firms dependent upon the historic configuration of the industry.

A goal of the Knowles Administration and the Task Force has been to offset some of these job losses by encouraging the manufacture of value-added wood products in the state and by augmenting existing timber supplies with timber from state lands. State agencies have been directed, under the umbrella of the "Coordinated Response Partnership", to cooperate more closely, reduce duplication, and maintain a commitment to the shared goal of facilitating the region's economic recovery. Legislation introduced by the Governor and passed in the 1996 legislative session, encourages the manufacture of high value-added wood products by allowing up to ten year negotiated contracts for state timber sales. The Governor also called for the planning of state timber sales in Southeast to be expedited to help stabilize the region's wood processing industries. While TLMP was being completed, the Governor strongly encouraged the Forest Service to provide a predictable reliable federal timber supply for the Ketchikan Pulp Company and 100 million board feet of timber for Small Business Administration (SBA) sales. Finally, Governor Knowles has emphasized the principles of sound science, prudent management, and a responsive public process while pressing for the timely completion of the Tongass Land Management Plan.

In March, the Governor traveled with mayors from Metlakatla, Ketchikan, Sitka, Juneau, Petersburg, Wrangell, plus the President of the Tongass Community Alliance to Washington D.C. to lobby for the completion of TLMP. The delegation met with the President's Chief of Staff, the Secretary of Agriculture, media, and other officials. The Governor and the mayors encouraged the rapid completion of TLMP. The trip played a crucial part in the signing of the TLMP record of decision before the May endangered species deadline.

The state and the Timber Task Force have also worked to assist mill owners in Southeast. The state helped Steve Seley get his new, high-value-added mill underway. Department of Natural Resources has provided approximately 16 MMBF to assist processors in Southeast including: four sales on Wrangell Island to Pacific Rim Cedar in Wrangell, one sale on Mitkof Island to The Mill, Inc. in Petersburg, ten sales to local operators on Prince of Wales Island and one sale and a beach log salvage license for Herring Bay Timber in Ketchikan.

The Governor also requested the formation of a Community Economic Revitalization Team for Southeast Alaska (SEA-CERT). This request was granted by the U.S. Department of Agriculture Secretary Dan Glickman on July 9, 1997. The SEA-CERT will bring together federal, state and local officials to jointly consider proposals for economic



diversification. It will help guide a community and its project through the maze of federal and state agencies, programs, processes and procedures. The Governor's SEA-CERT request evolved from the efforts of the Coordinated Response Partnership (CRP), which the state formed last year as a single-point-of-contact approach to the delivery of state and federal assistance to timber communities.

The state continues to work to provide assistance to timber impacted workers and families of the region. Activities include: amended unemployment regulations to accommodate worker severance packages; established a career transition center; sponsored small business workshops; provided for small business assistance to dislocated workers at the career transition center; talked with business leaders, including Coeur, VECO, BP, and Alaska Petroleum Contractors, to encourage them to consider laid off KPC mill workers when recruiting for jobs; directed more than a million dollars worth of overhaul work on the Alaska Marine Highway System to the Ketchikan Shipyard; and holding the region "harmless" from a \$28 million federal highways budget cut.

Following LPs announced closure of the Ketchikan pulp mill and in light of the cumulative effects of mill closures in the region, Governor Knowles appointed the Southeast Regional Timber Task Force to give Alaskans a voice in determining the future of the timber industry in the region. The Governor called upon industry, community, and government leaders to use their collective thinking to develop a vision and a plan to achieve a balanced industry structure in Southeast Alaska that is economically viable, based on sustainable harvest volumes and techniques, and supported through cooperation among timber ownerships.

For most of the Task Force members, dealing with change in the timber industry hits close to home. While continuing to grapple with economic uncertainty and turmoil in their own communities and businesses, the Task Force members made every effort to sort through divisive timber issues and redirect energy in support of positive and productive restructuring efforts.

Since the first meeting of the Task Force, in late September 1996, a number of the early suggestions posed by the membership have been initiated and progress has already been made on several items in this report. This reflects both the action-orientation of the membership, and the sheer determination of the timber industry to retain a presence in the Southeast region. Some of the activities underway include:

Wood Products and Processing Workshops. The Task Force encouraged representatives from the U.S.F.S Forest Products Laboratory (FPL) of Madison, Wisconsin to conduct a series of workshops on opportunities for wood products development in the region. The FPL is the premier research facility in the nation for wood products testing and product development. A series of two-day workshops were held in Juneau, Sitka, Wrangell, Ketchikan, and Coffman Cove in late February and early March. The agenda was designed to allow ample time for dialogue with all interested parties in these communities. The sessions allowed the FPL scientists to explain how they can assist manufacturers with technical questions and how unique wood qualities can serve as a starting point for finding market niches. Presenters described several wood manufactur-



ing techniques and the way in which value is added at each stage in the process. Lumber grading, drying, and the different roles of industry trade associations were also discussed. Attendance at the workshops varied and most wood processors in the audience were small and/or just getting started.

Composting Fish and Wood Waste. Again looking at uses for lower-value wood, the Task Force prompted several follow-up discussions about fish and wood waste composting, (see page 57). There appears to be a high level of interest in this product and investigation of its feasibility is ongoing in several communities, including Kake, Sitka, Metlakatla, and Ketchikan.

Log Sortyards. The Task Force strongly encouraged the Forest Service to start making logs available in a centralized sortyard (see page 16). This was one idea virtually all communities and a cross-section of interests seemed to support. The Forest Service is moving ahead with a pilot test of the sort yard concept. The first demonstration sort yard will be located near Ketchikan. Silver Bay Logging is also planning a sortyard in Wrangell as a part of its operation in that community.

Cooperative Agency Efforts. The Task Force prompted the formation of an interagency effort to bring state resources to bear on timber business assistance. The agencies involved include Alaska Industrial Development and Export Authority (AIDEA), Alaska Science and Technology Foundation (ASTF), the Mental Health Lands Trust, the University of Alaska, the Department of Natural Resources and Division of Forestry, the Department of Commerce and Economic Development, and the Department of Community and Regional Affairs. This effort has already generated some creative ideas for making more timber available from non-federal ownerships in the region. Other cooperative programs including lumber grading services, sawmill efficiency studies, and statewide timber industry surveys are underway.

Product Recovery Study from Lower-Value Timber. In response to a request from an industry member, the Task Force asked FPL to determine what can be done with the lower value timber currently stacking up on log decks throughout Southeast (see page 36). The FPL, working in cooperation with Viking Lumber, Silver Bay Logging, and the U.S. Forest Service Regional Office was able to acquire some of this material and process it in Southeast for shipment to the Madison research facility. The FPL is conducting a rigorous assessment of the products and grades of products that can be recovered from this material. This will help determine what can be done with the wood previously used for pulp manufacture.

Ethanol Production from Low-Value Wood Presentation. The Task Force invited the National Renewable Energy Lab (NREL) to make a presentation at the December 12th meeting. At this meeting, NREL described a possible use of the low value and waste wood in the region for the production of ethanol for the Anchorage market (see page 57). The viability of manufacturing ethanol was investigated further in a pre-feasibility analysis completed for Ketchikan Pulp Company and the Task Force in March 1997.

The Southeast Regional Timber Task Force held nine meetings; five in Juneau, one in Wrangell and Sitka, and two in Ketchikan. All meetings, notes and information generated by the Task Force were open and available to the public. At the time the Task Force was appointed, the Tongass Land Management Plan (TLMP) was under revision. The Task Force's work was slowed due to delay of TLMP. Although the TLMP was finally completed at the end of May 1997, the lack of firm data on the federal timber supply made this planning effort exceedingly difficult for the group to accomplish. Task Force members agreed early on that the completion of a legally-defensible TLMP revision was absolutely essential for any kind of stable timber industry to emerge.

Following the release of the TLMP Record of Decision, several administrative appeals were filed. While the appeals run their course, the Southeast timber industry is likely to experience continued uncertainty about current and future operations.

Timber supply was a priority item for the Timber Task Force. To this end, the task force invited representatives from the U.S. Forest Service Regional Office, the State Division of Forestry, the Mental Health Land Trust, and the University of Alaska to report in the outlook for timber supply under their management. The Task Force embarked on a candid dialogue with these land managers and developed a mutual understanding of their capabilities for providing timber to local manufacturers (see pages 9-16). As part of the fact-finding effort, the Task Force submitted a list of detailed questions about the federal timber supply to which the Forest Service provided a written response (see Appendix K).

Task Force members looked into state and federal funding programs such as Alaska Industrial Development and Export Authority (AIDEA); Alaska Science and Technology Foundation (ASTF); and the federal Economic Development Administration (EDA). Community leaders have since developed a revolving loan program with some of the "Senator Stevens funds" received from federal appropriations. The City of Wrangell has been strategically placing these funds to benefit timber workers by helping small-scale operators meet the bonding requirements for federal timber sales.

The variety of products that can technically be manufactured from the wood resources in Southeast Alaska is virtually endless. This was the message conveyed by Dr. Tom Hamilton of the USFS Madison Forest Products Laboratory at the January 17, 1997 Task Force meeting. Industry models prepared earlier by the Alaska Forest Association (Appendix G) and the Southeast Alaska Conservation Council also illustrated a wide range of possible scenarios for the future. From a technical standpoint, Dr. Hamilton noted that a fair amount of Alaska's wood is superior to that of other regions of the country. In particular, the cedar species holds considerable potential for local manufacture. Dr. Hamilton did not view the resource itself as a constraint on processing options, but acknowledged that cost and selling values were likely to limit the range of feasible product options. Task Force members agreed that finding an economically viable use for low value and waste wood in Southeast is critical to the industry's future.

In summary, the effort that Task Force members put into this report represents one of many steps to be taken in moving from a capital intensive pulp-based industry to one based on value-added manufacturing, both primary and second level, of solid wood products.



The report begins with the Task Force recommendations and information about the recommendations. This is followed by a description of the timber resources in the region and the wood products suitable for manufacture from the more common species, a review of timber supply by ownership with an eye toward short-run availability and longer term supply potential, a brief history of the timber industry, a description of the current industry structure. A summary of immediate issues to be dealt with, and a discussion of other ideas and programs that could be used to plan the industry's future.

The Task Force fully recognizes that the future of the industry, along with the investment and risk associated with that future, is ultimately in the hands of the private sector. However, the manner in which public policy shapes the opportunity set for the industry is a key factor in its development. Thus, appropriate policy tools were debated at length in several Task Force meetings. While the group did not form a consensus opinion about specific components of the future industry, several points of agreement were uncovered very early in the process. These "common thoughts" are listed below and serve as the basis for many of the suggestions detailed in the body of this report.

- The plan should be regional in scope.
- The plan will need broad public support.
- The plan should consider timber harvest and processing options from all ownerships.
- The plan should identify ways to increase the number of jobs in Southeast Alaska per thousand board feet of timber harvested.
- The plan should identify ways to maximize the return to all components of the wood supply.
- The plan should be based on sustainable timber harvest methods and levels.
- The plan should address the stability and predictability of the timber supply.
- We need to find ways to minimize litigation over timber sales.
- We need to find ways to enhance the timber industry's competitiveness in world markets.
- Governments at all levels should work together to provide a positive business environment.
- Community views on logging are likely to vary depending on whether timber is processed locally.
- Small operators are an important part of the mix in Southeast Alaska.
- The skills of the labor pool may not match the timber industry's needs.
- The plan should identify ways to improve the efficiency of the timber sale review process.

Southeast Timber Task Force Report

SUMMARY OF IMMEDIATE GOALS

1. IMPROVE THE RELIABILITY OF THE TIMBER SUPPLY

- a. The Forest Service should offer multi-year timber sales of appropriate size to encourage long-term investment in value-added processing.
- b. The Governor and the Regional Forester should support a community-based focus for specific Southeast Alaska timber sales.
- c. The Forest Service should modify its appraisal process, by a date certain, to encourage in-state manufacturing of cedar products and be more responsive to current market conditions.
- d. The state, federal and local governments should work together to find ways to compliment the Tongass timber supply with timber from other public ownerships. Specifically, the state should work with the University of Alaska and the Mental Health Land Trusts to develop creative mechanisms to make log supplies available to local mills while adhering to fiduciary mandates.

2. IDENTIFY USES FOR LOW-END LOGS

- a. Distribute the results of the Forest Products Laboratory's study on recovery rates for low-end logs.
- b. Establish the complete utilization of all harvested material as a federal policy in response to evolving manufacturing practices.
- c. The federal government should establish a new timber export policy by the end of 1997 to minimize exports and encourage instate processing of timber from federal lands.
- d. Explore opportunities to design sales to selectively harvest timber while adhering to sound silvicultural practices and ensuring the full protection of other resources.

3. PROVIDE A DEPENDABLE WOOD SUPPLY TO SMALL OPERATORS

- a. Offer logs for sale at community/local sortyards.

4. ENCOURAGE CAPITAL INVESTMENT IN VALUE-ADDED MANUFACTURING FACILITIES

- a. State funding agencies and financial institutions should hold an interagency meeting to determine how they can best assist the development of a value-added timber industry in Alaska.
- b. An industry working group should be formed to identify specific gaps in infrastructure that are hampering further development of the value-added industry.
- c. Business planning services should be an enhanced priority of state and local assistance programs.
- d. A permanent office of value-added wood products should be established within the Department of Commerce and Economic Development, funded and staffed at a level commensurate with similar programs in states and regions that compete with Alaska. The office should be given a mandate to assist the industry with making a transition, worker retraining, marketing, and other issues.

SUMMARY OF ON-GOING GOALS

1. IDENTIFY A STEADY AND RELIABLE LONG-TERM TIMBER SUPPLY FOR LOCAL PROCESSORS

- a. The Forest Service and the state must be given the resources necessary to adequately monitor management actions. For example, the Alaska Department of Natural Resources and the Alaska Department of Fish and Game need to be given the resources to continue their involvement in scientifically-based stream monitoring.
- b. State and federal agencies, and industry representatives should investigate the merits of third party certification of sustainable forestry in Southeast Alaska.
- c. State, federal and private timber managers should continue to work together to develop region-wide maps of the timber resource in Southeast Alaska at a scale that will be useful to local planners. The maps should be shared with communities and private industry in a timely manner.
- d. Alleviate at least part of the uncertainty and gridlock over timber supply through a cooperative effort directed at identifying "core" timber supplies.
- e. The Forest Service should investigate the merits of authorizing multi-year contracts to accomplish multiple land management objectives while providing timber for local mills for high value-added processing.

2. ENCOURAGE SMALLER TIMBER BUSINESSES TO WORK TOGETHER AND TO BECOME MORE COMPETITIVE

- a. Support the development of a small business network or cooperative to provide an economy of scale that enhances marketing, advertising, and technology transfer for its members.

3. PROVIDE THE PUBLIC THE INFORMATION NECESSARY TO MAKE INFORMED JUDGMENTS ABOUT THE ACTIVITIES OF THE TIMBER INDUSTRY IN SOUTHEAST

- a. Develop a partnership for marketing and disseminating a positive public image of the state's forest products industry's value-added activities. Publish a credible and informative brochure that describes the changes in the management of the Tongass National Forest and the scientific basis for those changes.
- b. Promote and support the use of wood products from Alaska in local construction and have the state take the lead in providing incentives to local builders to search out domestic supplies.